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Council President Herb Wesson

200 N. Spring Street, Room 430, Los Angeles, CA 90012

Re: Minimum Wage/Council File No. 14-1371

Dear Council President Wesson:

My name is Alex Wohlhueter, President of Revenue Management Solutions (RMS). RMS is a consulting firm specializing in the hospitality industry with over 20 years of experience in demand based pricing and marketing analytics globally. It is our understanding that the Los Angeles City Council is considering a referendum to increase the minimum wage in the City of Los Angeles from the current state of California minimum wage of $9.00 per hour to $13.25 per hour.

In our experience working with clients that span across all dining genres, margins in and of themselves are relatively small in particular in the restaurant industry. In a typical year when cost pressures, be it fixed or variable, increase incrementally, many small businesses can absorb these pressures via regular menu board price increases that remain relatively transparent to the consumer. However, in years when cost pressures increase significantly, this becomes increasingly difficult to manage and mitigate via traditional menu board price management.

To put this in perspective, for every $0.10 increases in wages it often requires a 0.25% increase in menu board prices to offset the change. In other words, the proposed $4.25 increase would require a typical restaurant owner to increase menu board prices by over 10% over three years. Please keep in mind that this 10% is in addition to price increases that would have to occur as a result of other increased costs, like insurance, utilities, costs relating to new State regulations, etc. For many restaurants, these projected increased costs in California could necessitate another increase in prices by up to 6.5% over the next three years. Together, these cost pressures would require a restaurant to increase prices by 16.5% over three years.

When considering that the expected rate of inflation for restaurants in LA is 3%, the required price change of 16.5% represents a 5.5 multiple. When making large scale price increases above the rate of inflation it is near impossible to accomplish this in a manner that preserves customer traffic. The end result is that many small businesses manage the increase in the cost of labor by reducing hours available to employees to work or by reducing the overall staff number. In simplest terms, a small business cannot simply pass the cost associated to a significant increase on any single fixed or variable cost by increasing price without risking significant traffic decline.

As such, we believe that an increase to a $13.25 hourly minimum wage should be phased in over 5-7 years to mitigate employee jobs/hours loss resulting from a reduction in customer traffic due to increasing prices too aggressively.

There is little doubt in my mind that the results of moving prices too quickly will be a downturn in restaurant traffic and a subsequent increase in unemployment for restaurant employees as restaurant owners are further forced to cut back.

Respectfully,

Alex Wohlhueter - President, RMS